

MADISON'S LUMBER REPORTER



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LEST WE FORGET

News & Updates

British Columbia Lumber Exports: September 2016

BC forest product exports year-to-date (September) 2016 totalled \$10.45 billion, up 8.7 per cent from \$9.61 billion for the same time last year, according to the Competitiveness and Innovation Branch of the BC Ministry of Forests, Lands, and Natural Resource Operations Tuesday. **CONT'D PAGE 6**

Japan Housing Starts

Japan housing starts improved by 3.9 per cent in September 2016, to 85,622 units annually on a seasonally-adjusted basis from 82,242 units one year ago, according to *Japan Lumber Reports* November 4. **CONT'D PAGE 7**

Kenora Forest Products Adds Shift

Kenora Forest Products, out of Kenora, ON, implemented another shift at its planer and sawmill October 31, providing jobs for approximately 45 more people. **CONT'D PAGE 7**

Tembec Closes Sale

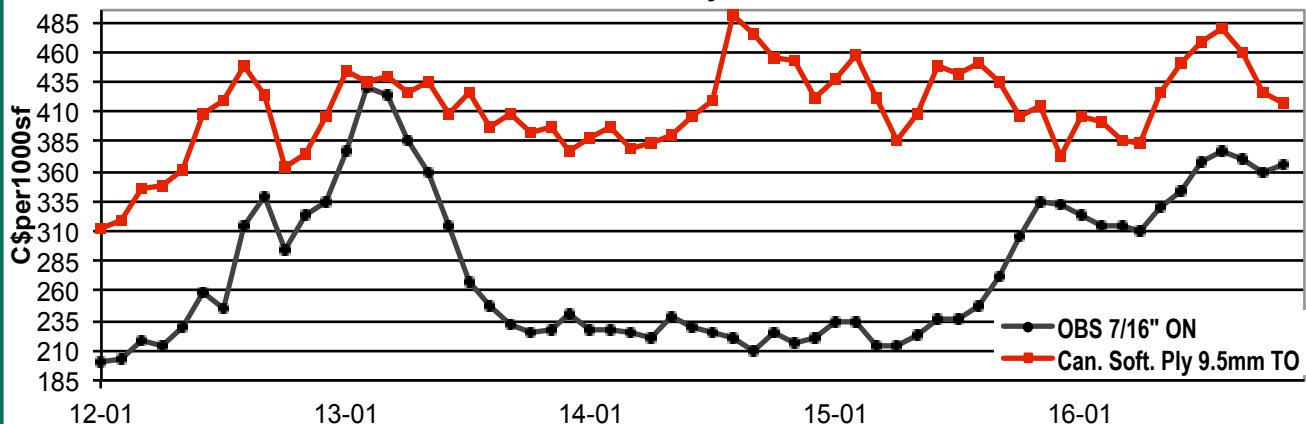
Montreal, QC's, Tembec announced also October 31 that it closed the sale of its sawmill and related forestry assets located in Senneterre, QC, to Resolute Forest Products. The sale also included certain working capital items. **CONT'D PAGE 7**

US Home Sales, House Prices, Homeownership Rates

Markets in 162 of the approximately 340 metro areas across the US returned to or exceeded their last normal levels of economic and housing activity in 3Q 2016, according to the National Association of Home Builders/First American Leading Markets Index (LMI) released Tuesday.

In 2017, sales of existing homes are forecast to grow roughly 2 per cent to around 5.46 million and continue with a more prominent jump of 4 per cent in 2018 (5.68 million), according to the National Association of Realtors Monday. **CONT'D PAGES 8, 9 and 10**

OSB Ontario 7/16" vs Can. Softwood Plywood 9.5mm Toronto 2012-OCT '16

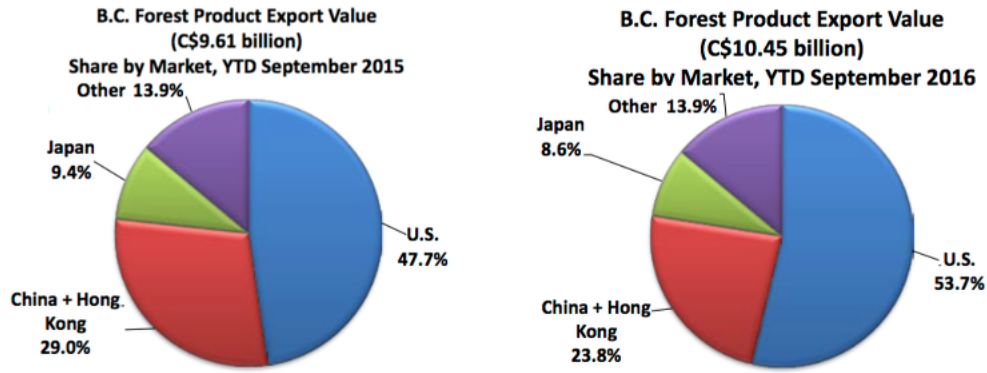


British Columbia Softwood Lumber Exports: September 2016

CONT'D FROM PAGE 2

Highlight of Exports in September 2016, compared to September 2015:

- BC forest product exports totalled \$1.22 billion, up 14.3 per cent from \$1.07 billion.
- Share of export value by market: US (53.1%, up from 51.6%), China + Hong Kong (25.6%, up from 21.5%), Japan (8.2%, down from 12.3%), and other destinations (13.1%, down from 14.6%).
- Share of export value by product: Softwood Lumber (49.8%, up from 45.6%), Pulp (22.0%, down from 25.3%), Other Wood Products (15.7%, down from 17.2%), Other Paper Products (6.5%, down from 7.8%), and Logs (6.0%, up from 4.2%).



B.C. Forest Product Export Value (C\$ billion) and Share (%) by Product										
Current Month (September) and YTD, 2015 and 2016										
Products Category	Current Month 2015		Current Month 2016		Change %	YTD 2015		YTD 2016		Change %
	\$	Share %	\$	Share %		\$	Share %	\$	Share %	
Lumber (softwood)	0.49	45.6%	0.61	49.8%	25.0%	4.35	45.2%	5.17	49.5%	18.9%
Pulp	0.27	25.3%	0.27	22.0%	-0.5%	2.49	25.9%	2.26	21.6%	-9.2%
Other Wood Products	0.18	17.2%	0.19	15.7%	4.4%	1.44	15.0%	1.77	17.0%	23.1%
Other Paper Products	0.08	7.8%	0.08	6.5%	-5.2%	0.83	8.6%	0.70	6.7%	-15.6%
Logs	0.04	4.2%	0.07	6.0%	64.2%	0.51	5.3%	0.55	5.2%	8.1%
Total	1.07	100%	1.22	100.0%	14.3%	9.61	100.0%	10.45	100.0%	8.7%

Highlight of Exports YTD 2016 (September), compared to YTD 2015 (September):

- BC forest product exports totalled \$10.45 billion, up 8.7% from \$9.61 billion.
- Share of export value by market: US (53.7%, up from 47.7%), China + Hong Kong (23.8%, down from 29.0%), Japan (8.6%, down from 9.4%), and other destinations (13.9%, down from 13.9%).
- Share of export value by product: Softwood Lumber (49.5%, up from 45.2%), Pulp (21.6%, down from 25.9%), Other Wood Products (17.0%, up from 15.0%), Other Paper Products (6.7%, down from 8.6%) and Logs (5.2%, down from 5.3%).

B.C. Forest Product Export Value (C\$ billion) and Share (%) by Market										
Current Month (September) and YTD, 2015 and 2016										
Destinations	Current Month 2015		Current Month 2016		Change %	YTD 2015		YTD 2016		Change %
	\$	Share %	\$	Share %		\$	Share %	\$	Share %	
U.S.	0.55	51.6%	0.65	53.1%	17.5%	4.59	47.7%	5.61	53.7%	22.3%
China + Hong Kong	0.23	21.5%	0.31	25.6%	36.1%	2.79	29.0%	2.48	23.8%	-10.8%
Japan	0.13	12.3%	0.10	8.2%	-23.6%	0.90	9.4%	0.90	8.6%	-0.4%
Other	0.16	14.6%	0.16	13.1%	2.6%	1.34	13.9%	1.45	13.9%	8.7%
Total	1.07	100.0%	1.22	100.0%	14.3%	9.61	100.0%	10.45	100.0%	8.7%

B.C. Forest Products Export Volume (million) by Product						
Current Month (September) and YTD, 2015 and 2016						
Products Category	Current Month 2015	Current Month 2016	Change %	YTD 2015	YTD 2016	Change %
Lumber (softwood) - m ³	2.19	2.50	14.1%	19.34	22.14	14.5%
Pulp - tonne	0.35	0.37	6.3%	3.19	3.07	-3.7%
Logs - m ³	0.33	0.60	78.7%	4.20	4.47	6.3%

Data Source: B.C. Stats tabulation from Statistics Canada. Nominal Dollar Value

Prepared by Alex Barnes, Competitiveness and Innovation Branch, Ministry of Forests, Lands, and Natural Resource Operations

Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
<small>Prices are in U.S. dollars per 1,000 fbm (net FOB mill)</small>							
WSPF KD R/L 2x4	310	310	0	326	-16	270	+40
WSPF KD R/L 2x6	275	278	-3	286	-11	262	+13
SYP KD R/L East Side 2x4	425	435	-10	430	-5	415	+10
SYP KD R/L East Side 2x6	350	355	-5	380	-30	335	+15
ESPF KD R/L 2x4	390	400	-10	415	-25	370	+20
WSPF KD PET 2x4 Stud	270	265	+5	280	-10	230	+40
WSPF KD PET 2x6 Stud	220	220	0	220	0	235	-15
Douglas Fir Green R/L 2x4	315	318	-3	340	-25	310	+5
Douglas Fir Green R/L 2x10	310	320	-10	325	-15	410	-100
ESPF KD 2x4 8ft Stud	345	350	-5	365	-20	305	+40
OSB Ontario 7/16" (CDN\$/msf)	365	365	0	360	+5	337	+28
CSplywood Toronto 3/8" (CDN\$/msf)	417	418	-1	400	+17	412	+5

Madison's Weekly Softwood Lumber News

Kenora Forest Adds Shift

CONT'D FROM PG 2 Unifor and the company previously committed to ensuring members of the aboriginal community shared in the economic benefits of the reopening of the mill last year. Dozens more are employed in log-harvesting operations.

The Kenora, ON, mill shut down in 2008 after the collapse of the US housing market, and didn't resume production until last January.

Up to 80 per cent of the sawmill's output goes to the US.

The plant is owned by Winnipeg-based Prendville Industries.

Tembec Completes Sale

CONT'D FROM PG 2 Tembec announced October 31 that it closed the sale of its sawmill and related for-

estry assets located in Senneterre, QC, to Resolute Forest Products. The sale also included certain working capital items. The Company received proceeds of approximately \$9 million on closing, subject to potential working capital adjustments.

This transaction included the transfer of all the employees (103 unionized and 21 non-unionized employees). Tembec acquired the mill in 2003 from Nexfor and Norbord. Tembec's lumber capacity is now 755 million board feet per year, down from 855 million board feet prior to the sale.

BC Minister of Forests on US Election Results

At the Kelowna Chamber of Commerce meeting Thursday Central Okanagan-Similkameen-Nicola MP

Dan Albas and Kelowna-Lake Country MP Stephen Fuhr commented on President-Elect Donald Trump.

BC Minister of Forests, Kelowna-Mission MLA Steve Thomson, said he is working with the federal government to get a new softwood lumber trade agreement with the US.

Because BC produces 55 per cent of softwood lumber production in Canada, Thomson said the agreement is crucial and will be reached despite Trump's seemingly anti-trade mentality.

"Last night's decision won't change our efforts at all in terms of continuing to push forward for a new agreement," he said. "It's been challenging all along in terms of having a substantive level of engagement from the US on this file. We'll be back at the table quickly."

Japan Housing Starts: September 2016

Production and Imports with Housing Starts

	Housing Starts (unit)						Production			
	Total	Owners	Rental	Built for sale	Wood-framed	Lumber 1,000m ³	Plywood (m ³)			
							Standard	Half inch	Structural	Softwood
'16 Jan.	67,815	20,264	28,288	18,903	37,516	724	239,496	2,628	215,327	224,544
Feb.	72,831	20,984	28,871	22,404	38,605	764	250,684	4,586	227,518	235,888
Mar.	75,744	22,274	30,572	22,125	41,154	826	268,788	4,534	243,453	253,536
Apr.	82,398	23,567	35,504	23,029	44,091	812	251,930	3,444	227,803	237,082
May	78,728	23,501	32,427	22,213	42,794	746	238,300	2,867	216,207	224,364
June	85,953	26,944	36,910	21,617	47,502	809	265,683	3,234	243,914	251,376
July	85,208	26,910	37,745	19,867	48,693	783	260,754	1,635	239,904	246,758
Aug.	82,242	26,341	36,784	18,509	48,717	743	242,771	1,369	222,867	229,949
Sept.	85,622	25,573	38,400	21,339	49,733	774	264,848	1,290	246,234	252,498

SOURCE: Japan Lumber Reports

US Home Sales, House Prices, and Homeownership Rate: 3Q 2016

CONT'D FROM PAGE 2

Markets in 162 of the approximately 340 metro areas across the US returned to or exceeded their last normal levels of economic and housing activity in 3Q 2016, according to the **National Association of Home Builders/First American Leading Markets Index** (LMI) released Monday. This represents a year-over-year net gain of 73 markets.

The index's nationwide score ticked up to .98, meaning that based on current permit, price and employment data, the nationwide average is running at 98 per cent of normal economic and housing activity. Meanwhile, 91 per cent of markets have shown an improvement year over year.

Elsewhere, the long-expected influx of millennial home buyers may finally occur over the next two years, but a shortage of new entry-level homes will keep inventory tight and prices high, says the **National Association of Realtors**.

In 2017, sales of existing homes are forecast to grow roughly 2 per cent to around 5.46 million and continue with a more prominent jump of 4 per cent in 2018 (5.68 million), according to the NAR's chief economist, Lawrence Yun. Yun expects existing-home sales for 2016 to finish at a pace of about 5.36 million — the best year since 2006 (6.47 million).

The national median existing-home price is expected to rise to around 4 per cent both this year and in 2017.

Currently, only 14 per cent of homes bought by first-time buyers this year were new construction, the lowest since 2003,

US HOME OWNERSHIP RATES

Despite the challenges of low inventory, rising home prices and some difficulties getting financing, Americans are finding ways to transition away from renting and make homeownership happen. The modest uptick in the homeownership rate in 3Q from 2Q was driven by almost 1 million new homeowner households created in the quarter, and a drop in renter households of more than 600,000 over the same time — the largest quarterly gain and drop, respectively, since 2001.

Household formation overall was strong, rising 1 per cent from a year ago. In September alone, the US added more than 730,000 new households, and has added more than a million since last September. There has been a lot of hand wringing lately about the declining homeownership rate and slowing household formation rate, but this quarter's data prove that homeownership is stabilizing and buying a home remains an important goal for millions of Americans.

- The 3Q 2016 homeownership rate ticked up to 63.5 per cent from 62.9 per cent in 2Q on the back of strong owner household formation, but remains down slightly from 3Q 2015, according to the **US Census Bureau**.
- The number of US homeowner households grew by 922,000 in 3Q from 2Q, the highest quarterly change in owner households since 3Q 2001.
- The number of US renter households fell by 606,000 in 3Q from 2Q, the largest decline in at least 15 years.

Housing Forecast

	2015	2016 Likely	2017 Forecast	2018 Forecast
New Home Sales	500,000	570,000	620,000	700,000
Existing Home Sales	5.3 million	5.4 million	5.5 million	5.7 million
Median Price Growth	+ 6.8%	+4.0%	4.2%	2.5%
30-year Rate	3.9%	3.6%	4.1%	4.5%

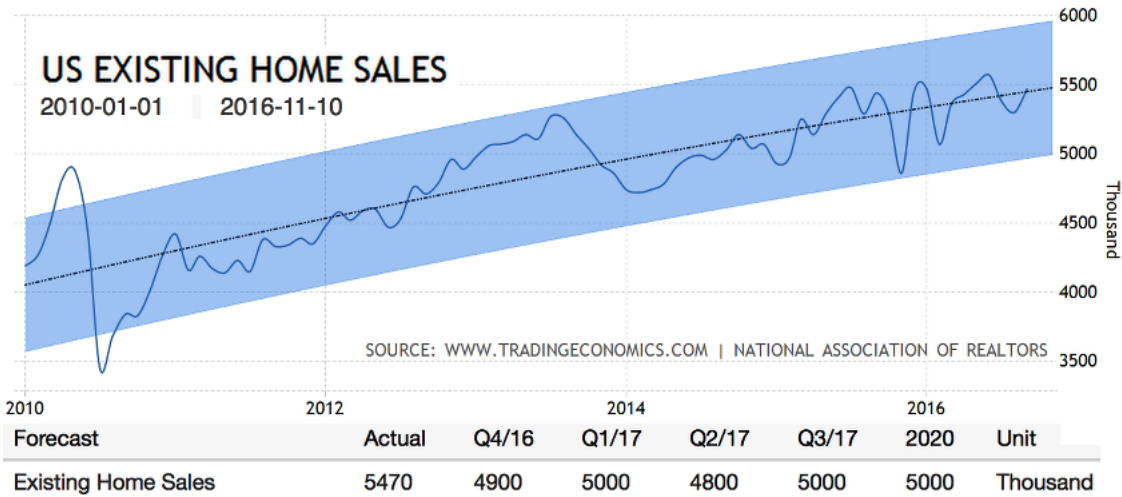
SOURCE: National Association of Realtors

US Housing Starts Forecast

CONT'D FROM PAGE 8

Looking to next year, **National Association of Realtor's** Yun thinks the tight supply and affordability issues affecting buyers in many markets will very slowly but surely start to abate. As housing starts steadily increase, both he and Lockhart are optimistic that housing demand will include leading-edge millennial households finally dipping their toes into the market at a growing rate.

Yun anticipates housing starts to jump 5.3 per cent next year to 1.22 million. However, this is still under the 1.5 million new homes needed to make up for the shortfall in recent years and keep up with the growing demand. New single-family home sales are likely to total 570,000 this year and rise to around 620,000 in 2017.



US HOUSE PRICES

US housing supply is down and prices are up, but there is at least one sign of softening. Landlords and sellers are increasingly cutting prices in order to find takers.

According to a new **Trulia** analysis, in the 12-months through September, advertised prices were reduced on 9.32 per cent of rental listings around the country, up from 7.97 per cent in the prior year. The share of rentals with price reductions increased in 80 of the 100 largest metropolitan areas.

Meanwhile, 10.66 per cent of for-sale listings took price reductions. That's up from 10.14 per cent last year. Of the 100 largest metro areas, 70 experienced an increase in price reductions on for-sale listings year-over-year.



In the past five years home sale prices across the country are up more than 20 per cent and rentals more than 12 per cent, leaving many to wonder if a peak could be near. In most markets the climb continues, but the price reduction trend **Trulia** has charted suggests fault lines at the fringes.”

HOUSE PRICE INDEX

The **Case Shiller Home Price Index** in the United States is expected to be 193.38 Index Points by the end of this quarter, according to **Trading Economics** global macro models and analysts expectations. Looking forward, Trading Economics estimate Case Shiller Home Price Index in the United States to stand at 193.50 in 12 months time. In the long-term, the United States S&P Case-Shiller Home Price Index is projected to trend around 211.00 Index Points in 2020, according to econometric models.

HOME SALES FORECAST

The early signs of softening aren't enough for the 1 million-member Realtors association to revise its bullish outlook. The association expects about 5.4 million homes to trade in the US this year and another 5.5 million in sales in 2017.

That's up by more than 1 million annually from the worst of the recession but lags decade-ago peaks by more than 1.5 million transactions.

Yun said student debt levels are keeping many young homebuyers on the sidelines.

He said the absence of younger homebuyers has fueled the overall decline in ownership in America.



“The home ownership rate was at a 50-year low two weeks ago,” Yun said. “The decline in home-ownership at 65 and older has been minimal. The decline has been much sharper among the younger generation.”

A growing wealth gap between younger and older households has also held down millennial homeownership, he said. But more adults will soon be in the 30 to 39 age range, which is the sweet spot for first time buyers.

“I believe in the coming years we will see a greater share of first time buyers coming into the market,” Yun said. “If we have more people, more jobs and more wealth, surely home sales should be doing better. We think housing will continue to march forward in the coming years.”

CONT'D PAGE 10

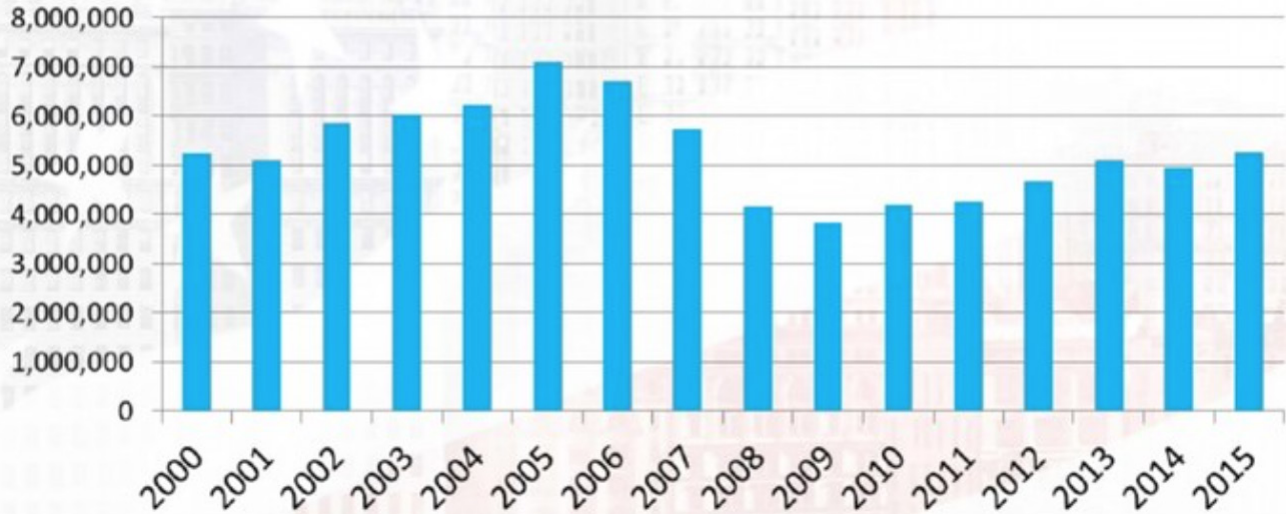
US Existing Home Sales

CONT'D FROM PAGE 9

Existing Home Sales in the United States is expected to be 4,900 Thousand by the end of this quarter, according to **Trading Economics** global macro models and analysts expectations. Looking forward, Trading Economics estimate Existing Home Sales in the United States to stand at 5,000 Thousand in 12 months time. In the long-term, the United States Existing Home Sales is projected to trend around 5,000 Thousand in 2020, according to econometric models.

EXISTING HOME SALES – MODERATE RECOVERY

SOURCE: National Association of Realtors



HOUSE INVENTORY

Inventory is still an issue for existing-home sales, which hit a seasonally adjusted rate of 5.47 million in September. That's up 3.2 per cent from August's pace and up 0.6 per cent from September 2015. Buyer traffic in most states is strong, while seller traffic is weak in many — one of the several indicators of low inventory of existing homes.

Inventory decreased 6.8 per cent year-over-year in September. Properties sold that month were typically on the market for 39 days, compared with 49 days in September

2015. Meanwhile, new-home construction isn't growing fast enough to meet demand.

Price growth for US homes will continue at the pace of recent months.

The nation's hottest markets continue to be in the West: Portland posted an 11.7 per cent year-over-year gain, Seattle was up 11.4 per cent, and Denver showed an 8.8 per cent increase.

With the latest gains, home values are inching closer to the prerecession high set in July 2006.

